LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7243
BILL NUMBER: HB 1577

NOTE PREPARED: Jan 12, 2009
BILL AMENDED:

SUBJECT: State Spending Cap.

FIRST AUTHOR: Rep. Clere
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
X **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill imposes general expenditure controls on the state. It provides procedures for the implementation of the spending controls. It permits the General Assembly to appropriate and the state to expend an amount exceeding the general expenditure limit if at least two-thirds of the members of the Senate and two-thirds of the members of the House of Representatives adopt a resolution declaring the General Assembly's intent to authorize the additional expenditure. It repeals the business cycle state spending controls.

Effective Date: Upon passage; June 30, 2009.

Explanation of State Expenditures: *Expenditure Limits*: The bill repeals the current state spending controls outlined in IC 4-10-21, which were established in P.L. 192-2002(ss), and replaces them with a similar set of limits and requirements. The bill resets the base year to FY 2008 and will affect appropriations beginning with the FY 2010-FY 2011 budget.

This bill requires the Budget Agency to determine the Indiana personal income (IPI) growth quotient. The IPI growth quotient is defined as the average annual change in Indiana personal income over the preceding six years. The Budget Agency is to publish this index in the Indiana Register not later than February 15 of each odd-numbered year and the historic IPI numbers in the Indiana Register not later than July 1 of each odd-numbered year. The Budget Agency shall also publish the maximum expenditure amounts in the Indiana Register not later than February 15 of each odd-numbered year.

The bill defines the maximum expenditure for FY 2010 to be based on FY 2008 actual expenditures, adjusted to account for differences in state spending responsibilities beginning in FY 2009, and adjusted for the FY

2009 and FY 2010 IPI growth quotients. Beginning in FY 2011, the maximum expenditure for the second year of a biennium is based on the maximum expenditure for the first year and an IPI growth quotient for the second year using estimated personal income for the last year of the growth quotient series. Beginning in FY 2012, the maximum expenditure for the first year of a biennium is based on the maximum expenditure of the second year of the preceding biennium and the IPI growth quotient for the first year of the biennium.

It is estimated that the IPI growth quotients for FY 2010 and FY 2011 could allow for growth in the maximum expenditure amount by about 4% in FY 2010 and about 3.6% in FY 2011. These estimates are based on estimated Indiana personal income for 2008 and a forecast of 2009 Indiana personal income from the December 11, 2008, Revenue Technical Committee Forecast.

The maximum expenditure applies to expenditures from "controlled state funds" defined by the bill as the state General Fund, the Counter-Cyclical Revenue and Economic Stabilization Fund, and the State Tuition Reserve Fund. The bill prohibits the General Assembly from appropriating and the Budget Director from allotting a total sum of expenditures in a state fiscal year that exceeds the state spending cap as determined above.

The bill allows an increase in the spending cap, other than by the IPI growth quotient, if at least one of the following occurs: (1) a spending responsibility has shifted from another level of government to the state; (2) a spending responsibility has shifted from a fund not limited by this chapter to a limited fund; or (3) there has been an expansion of state services and state spending, and a tax increase has been dedicated to these services. The increase in the spending cap requires approval of a two-thirds majority of both the House and Senate.

The bill also sets out procedures for the reduction of the state spending cap under certain conditions.

This bill affects appropriations and allotments for fiscal years beginning FY 2010. The impact on state spending is indeterminable and subject to legislative, executive, and judicial actions.

Budget Bill Requirements: This bill requires that the digest of the conference committee report on the budget bill contain the following information: (1) the total amount of appropriations from controlled state funds; (2) the total amount of appropriations for expenditures subject to general expenditure controls; and (3) the expenditure limit for controlled state funds. This requirement would first apply for the budget bill considered during the 2009 General Assembly.

Explanation of State Revenues:

Explanation of Local Expenditures: Distribution of state revenue to local units of government are dependent on the disposition of state appropriations.

Explanation of Local Revenues:

State Agencies Affected: All; State Budget Agency; General Assembly.

Local Agencies Affected: All.

Information Sources: *Revenue Technical Committee Forecast*, December 11, 2008; State Annual Personal Income - 2002-2007, U.S. Bureau of Economic Analysis.

Fiscal Analyst: Jim Landers, 317-232-9869.